



**DEPARTMENT OF THE NAVY**  
NAVAL FACILITIES ENGINEERING COMMAND  
WASHINGTON NAVY YARD  
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WASHINGTON, DC 20374-5065

IN REPLY REFER TO  
ACQ 021  
09 Feb 00

**MEMORANDUM FOR NAVFAC ACQUISITION PERSONNEL**

Subj: AWARD AND ADMINISTRATION OF CONTRACTS FOR MANAGEMENT,  
SUPPORT AND ENGINEERING SERVICES (00-09)

Encl: (1) OASN (RD&A) ABM memo of 19 Jan 00

1. Increased emphasis has been placed on award and management of services contracts from many sources (i.e., GAO, OFPP and the DoDIG). Recently the DoDIG met with representatives of the services and Defense agencies to discuss findings identified during their reviews/audits. Enclosure (1) provides these findings and recommendations. These findings and recommendations include the following:

a. Findings:

(1) Preaward: inadequate Government estimates; cursory technical reviews; inadequate competition; inadequate negotiation memorandums; and failure to comply with FAR criteria for multiple award contracts.

(2) Postaward: inadequate surveillance; lack of cost control; lack of competition on task orders; and lack of use of prior history.

b. Recommendations:

(1) DUSD(AR) to develop multi-functional training on planning/defining requirements, to include using historical data; and to train acquisition personnel (contracting and requirements) on duties/responsibilities in solicitation/award and administration of services contracts.

(2) Service/Defense Agencies to make acquisition personnel aware of issues and evaluate contracts DoDIG identified as not complying with FAR requirements for use of multiple award contracts (6 of the 8 contracts identified are DoN contracts, none are NAVFAC).

2. Please ensure that all acquisition personnel are aware of these issues and are in full compliance with FAR requirements.

A handwritten signature in black ink, appearing to read "Michael F. Howard", is located above the printed name.

**MICHAEL F. HOWARD**  
Director, Strategic Management  
Community Management Section



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JAN 19 2000

MEMORANDUM FOR HEADS OF THE CONTRACTING ACTIVITIES

Subj: AWARD AND ADMINISTRATION OF CONTRACTS FOR MANAGEMENT,  
SUPPORT AND ENGINEERING SERVICES

Encl: (1) Copy, DoDIG January 11, 2000 presentation

There is increased emphasis on award and management of services contracts from many sources. GAO, OFPP and the DoDIG are conducting reviews/audits to ensure that the Department acquires necessary services efficiently and effectively and that we effectively use service contract deliverables.

Recently, senior contracting personnel from the Services and Defense Agencies met with the DODIG to discuss findings and recommendations from their recent review of services contracting. Their findings and recommendation are presented in enclosure (1).

The DoDIG identified pre-award and post-award issues. One recommendation calls for a review of contracts identified as not complying with Federal Acquisition Regulation Subpart 16.5 policies on award of multiple award contracts. A second recommendation is to establish a time-phased plan to review services contracts to convert repetitive requirements to a fixed-price arrangement. Other recommendations include developing multi-functional training on services contracting and increasing awareness of areas of concern to the acquisition community.

I wanted to share these issues and concerns prior to the issuance of the draft report. Please forward the results of your review of the contracts identified as not complying with FAR 16.5 policies on multiple award contracts by February 25, 2000. If you have any questions or comments, please contact Bob Johnson at [johnson.robert@hq.navy.mil](mailto:johnson.robert@hq.navy.mil) or (703) 602-2805.

Paul P. Buonaccorsi  
Executive Director  
Acquisition and Business Management

Subj: AWARD AND ADMINISTRATION OF CONTRACTS FOR MANAGEMENT,  
SUPPORT AND ENGINEERING SERVICES

Copy to: w/o encl.:

Enclosure (1) can be accessed at the ABM homepage:  
<http://www.abm.rda.hq.navy.mil/>

Program Executive Officers  
Direct Reporting Program Managers  
PDASN(RDA)  
DASN(AIR)  
DASN(SHIPS)  
DASN(C4I)  
DASN(MUW)  
DASN(PPR)  
DASN(TCS)  
ARO  
DACM  
COM NAVICP  
AGC(RDA)

NAVAIRSYSCOM	(AIR 2.0)
NAVFACENGCOM	(FAC ACQ)
NAVSEASYSYSCOM	(SEA 02)
NAVSUPSYSCOM	(SUP 02)
SPAWARSYSCOM	(SPAWAR 02)
MARCORLOGCOM	(MCLC CT)
DC/S I&L, HQMC	(LB)
MILSEALIFCOM	(MSC N10)
SSP	(SPN)
ONR	(02)
NAVICP	(02)

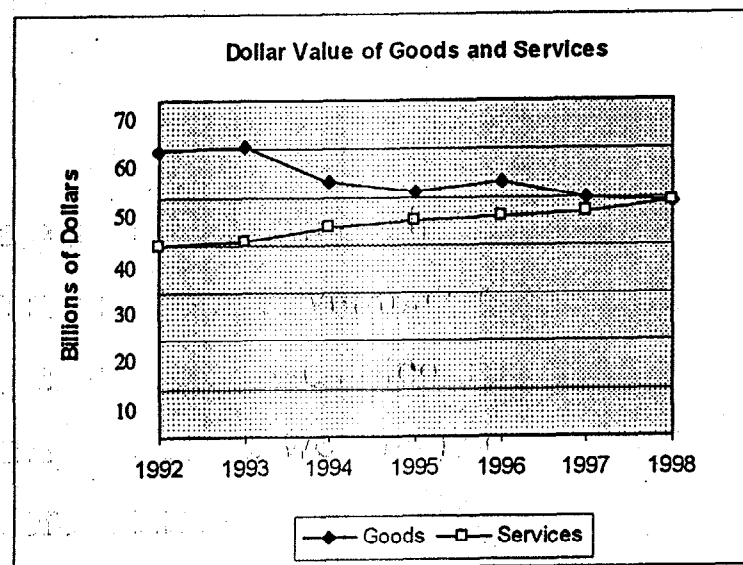
ABM Home Page

**Award and Administration of  
Contracts for Management/  
Support and Engineering  
Services**

**January 11, 2000**

## Background

Recent trends show that DoD procurements for services are increasing annually. From 1992-1998, DoD procurement of services increased from \$39.9 billion to \$48.9 billion while procurement for goods decreased from \$59.8 billion to \$49.1 billion. DoD spent approximately \$9 billion in FY 1998 for Program and Management Support, the largest service category, as compared to \$7 billion for fixed-wing aircraft.



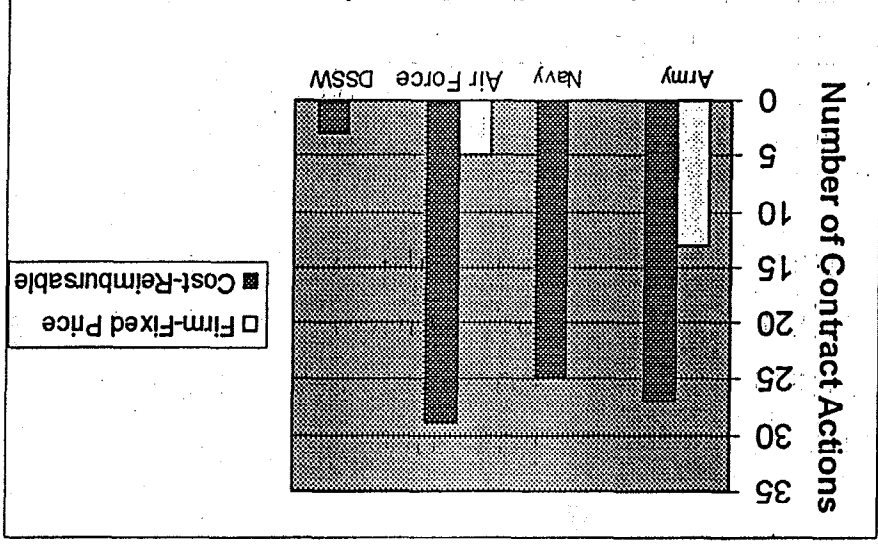
## Objective

The primary objective was to determine whether the Military Departments and Defense agencies effectively use deliverables obtained from service contracts. During our review of deliverables, we noted numerous contract award and administrative problems, therefore, we changed our objective to evaluate procurement procedures.

## Audit Scope

- We reviewed contract actions within 3 contract-for-service categories:
  - Program Management/Support Services (R-408)
  - Systems Engineering Services (R-414)
  - Engineering Technical Services (R-425)

• Our review consisted of 46 contracts valued at \$6.6 billion and 59 task orders valued at \$143 million (105 contract actions). The following chart shows the breakdown of contract actions according to Military Department



- Over 104 million hours of services were available during the contract period for 46 contracts that we reviewed. This is equivalent to 50,230 full-time positions.

## Findings/Issues Identified

Problems were found that included cursory technical reviews, inadequate government estimates, cost increases or lack of cost control, inadequate surveillance, lack of use of available prior history, inadequate negotiation memorandums, inadequate competition justifications, and the failure to use multiple-award contracts when required.

Problem Areas	Number of Occurrences	Percent
Pre-Award Problems		
Inadequate Government Estimates	81/105	77
Cursory Technical Reviews	60/105	57
Inadequate Competition	63/105	60
Failure to Comply With FAR Criteria For Awarding Multiple-Award Contracts	8/38	21
Inadequate Negotiation Memorandums	71/105	68
Post-Award Problems		
Inadequate Surveillance	56/84	67
Lack of Cost Control	21/84	25
Lack of Use of Available Prior History	58/84	69



## **Inadequate Government Cost Estimates**

- Cost estimates were not prepared for 26/105 contract actions examined
- Cost estimates lacked detail
- Cost estimates were unsigned
- Cost estimates were undated

## **Cursory Technical Reviews**

- technical reviews were not performed
- technical reviews were performed hastily
- technical reviews were performed in a pro-forma manner
- technical reviews lacked specific detail

## **Inadequate Competition**

- Contracting officials did not compete task orders in 63 of 105 task orders reviewed.  
58/63 task orders were related to multiple award contracts
- Justifications for awarding contracts sole-source lacked detail

## **Failure to Comply With FAR Criteria For Awarding Multiple Award Contracts**

- Contracting organizations did not comply with FAR requirements and did not utilize multiple-award contract mechanisms for contracts that exceeded \$10 million and 3 years in duration in 8/38 acquisitions reviewed

## **Inadequate Negotiation Memorandums**

- Negotiation Memorandums were inadequate in 71/105 contract actions reviewed.
- Negotiation Memorandums lacked detail
- Negotiation Memorandums left many unanswered questions. For example, material and other direct costs of \$535 million were incurred under 22 of 46 contracts reviewed, however, contract files did not contain documentation supporting purchases of the equipment and materials or evidence that material costs had been reviewed and were reasonable. Contract actions included material costs when it was not readily apparent that the material was necessary for performance of the service. This was especially true when task orders were issued that consisted of more than 90 percent material with only a token number of service hours for administration.
- Negotiation Memorandums contained inaccurate statements

## **Inadequate Surveillance**

- Service contracting officers' representatives did not perform surveillance or prepare surveillance reports in 56/84 cost-reimbursable contract actions
- Service contracting officer's representatives did not maintain up-to-date surveillance folders
- Service contracting officers' representatives used contractor prepared status reports to determine how the contractor was performing
- Service contracting officer's representatives could not provide specific examples of where they had questioned contractor costs

## **Lack Of Cost Control**

- Cost growth occurred in 21/84 cost-reimbursable type contracts actions. This occurred when contracting officials modified contracts to:
  - increase the level of work
  - changed the scope of work
  - add external purchases

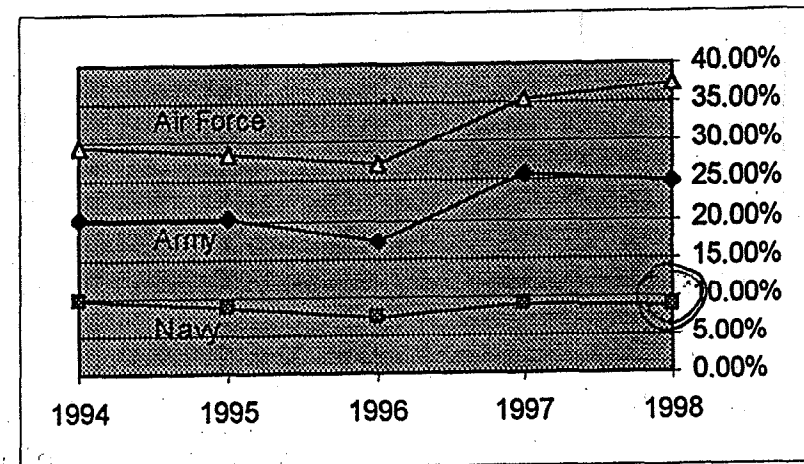
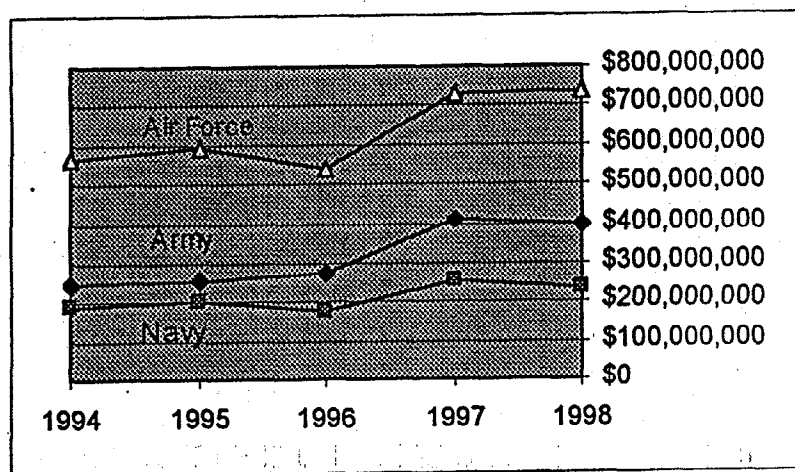
## **Lack of Use of Available Prior History**

- Most contracting organizations did not use available historical data from prior contracts to help define costs and reduce the risk to the government by awarding fixed-price contracts. Available history in many instances consisted of many years, and in some instances 25-39 years
- On the other hand, some contracting organizations used innovative techniques and prior experience to develop more precise requirements and fix-price portions of their contracts. Although the type of services differed among contracts, these contracting organizations demonstrated that innovation and effort on the front-end of the contracting process could be used on a variety of service contracts
- However, fixed price orders were not appropriate when the requirements had not been defined. Several fixed price orders resulted in excess profit to the contractor because orders were awarded without establishing work measures.



## Lack of Use of Available Prior History (Cont'd)

- The following charts compare the dollar amount and percent of fixed-price Program Management and Engineering Services contracts awarded by the Army, Navy and Air Force from 1994 through 1998



## **Recommendations**

- We recommend that the Deputy Under Secretary of Defense (Acquisition Reform)
  - develop a training course (s) on planning and defining requirements and using historical program management support and engineering services contract data
  - train contracting and program personnel on the award and administration of contracts for Professional, Administrative, and Management Support Services emphasizing future prevention of the types of deficiencies noted in this report

## Recommendations (Cont'd)

- We recommend that the Assistant Secretary of the Army Acquisition Logistics and Technology, the Assistant Secretary of the Navy (Research, Development and Acquisition), the Office of the Assistant Secretary (Acquisition) SAF/AQ) and the Director, Washington Headquarters Services
  - make all acquisition personnel aware of the problems found in independent government cost estimates, technical evaluations and price negotiation memorandums
  - evaluate the 8 contracts identified that should have been awarded as multiple award contracts in accordance with the FAR and terminate or convert them upon completion to multiple award contracts
  - establish centers of excellence with personnel that have performed research and received training to become expert buyers of "Professional, Administrative, and Management Support Services"
  - require personnel acquiring the "Professional, Administrative, and Management Support Services" to use the centers of excellence

## **Recommendations (Cont'd)**

- establish a time-phased plan with goals and performance measures that require the review of all “Professional, Administrative, and Management Support Services” contracts with the objective to:
  - convert, over three to five years, those repetitive cost-reimbursable contracts, or portions of contracts to fixed-price
  - develop work measures on contracts for “Professional, Administrative, and Management Support Services” that provide a basis to measure improvement in performance and implement those improvements through the options, modifications for additional work and future contracts

## Appendix C. Contracts That Should Have Been Awarded As Multiple Award Contracts

Contract No.	Estimated Amount		Contract No.	Estimated Amount
N00024-95-C-2103	\$ 28,625,000		F08626-94-C-0054	\$ 44,108,598
N00024-96-C-6214	\$ 15,313,460		DAHA90-94-D-0016	\$ 13,333,751
N00024-96-C-6216	\$ 16,881,391		N00024-94-C-6429	\$ 12,712,094
N00024-96-C-5168	\$ 19,825,293		F34601-93-C-0989	\$ 453,355,000
N00024-97-C-5180	\$ 21,832,001		F04611-92-C-0045	\$ 612,545,986
N00024-97-C-2103	\$ 57,800,680		N00024-94-C-5160	\$ 163,691,895
DAAB01-97-C-C605	\$ 44,818,180		DAAB07-94-D-M503	\$ 500,000,000
F42620-97-D-0010	\$823,300,000		N00024-94-C-5144	\$ 25,757,500
N00024-97-C-5173	\$183,311,199		F08626-96-D-0003	\$ 154,892,012
DAAH01-98-C-0157	\$ 75,238,121		F34601-98-C-0125	\$1,479,138,303
DAAH01-97-C-0002	\$ 36,207,720		F34601-95-C-0538 <sup>1</sup>	\$ 195,886,329
N68936-95-C-0094	\$114,964,715		N00024-97-C-6411* <sup>2</sup>	\$ 106,567,354
N68936-98-C-0044	\$165,878,981		N00024-96-C-6409* <sup>3</sup>	\$ 29,999,445
N00024-95-C-5156	\$ 15,061,484		DACA87-97-D-0021* <sup>4</sup>	\$ 16,000,000
N00024-95-C-5159	\$ 91,248,135		N68936-98-D-0038* <sup>5</sup>	\$ 48,416,923
N00024-97-C-5172	\$ 18,134,500		N00024-96-C-6301* <sup>6</sup>	\$ 32,435,598
N00024-97-C-5177	\$ 11,851,125		N00024-95-C-6360* <sup>7</sup>	\$ 12,848,428
N00024-98-C-5197	\$ 36,347,539		N00024-97-C-5182* <sup>8</sup>	\$ 21,269,021
N65236-96-D-3700	\$ 39,000,000		DAAB07-96-D-F308	\$ 148,234,682

<sup>1</sup>Contracts that should have been awarded as multiple award contracts.

## Contract List

### AIR FORCE

Eglin AFB	F08626-96-D-0003
	F08626-94-C-0054
	F08626-94-C-0026
Edwards AFB	F04611-92-C-0045
Hill AFB	F42620-97-D-0010
Tinker AFB	F34601-95-C-0538
	F34601-98-C-0125
	F34601-93-C-0989
Kelly AFB	F41608-98-C-0307
	F41608-98-C-0532
	F41608-98-D-0566
	F41608-96-C-1044

### NAVY

FISC/Philadelphia	N00140-97-D-1636
NAVSEA/Crystal City	N00024-94-C-6429
	N00024-97-C-5173
	N00024-96-C-6409
	N00024-97-C-6411
NAVSEA/Moorestown, NJ	N00024-94-C-5160
NAWCWPNS (China Lake)	N68936-95-C-0094
	N68936-98-D-0038
	N68936-98-C-0044
	N68936-97-D-0297
SPAWAR (Charleston, SC)	N65236-96-D-3700
	N65236-98-D-7706
	N65236-98-D-7707
	N65236-97-D-3810
	N65236-97-A-7906

### ARMY

National Guard Bureau	DAHA90-94-D-0016
	DAHA90-99-F-0001
CECOM (Ft. Monmouth)	DAAB07-96-D-F308
	DAAB07-94-D-M503
	DAAB07-97-C-C605
	DAAB07-96-C-A760
	DAAB07-98-D-H751
Aviation and Missile Command	DAAH01-98-C-0201
	DAAH01-97-C-0125
	DAAH01-97-D-0049
	DAAH01-97-C-0002
US Army Corps of Engineers	DACA87-97-D-0027
	DACA87-97-D-0029
	DACA87-97-D-0037
	DACA87-97-D-0038
	DACA87-97-D-0039
	DACA87-97-D-0040
	DACA87-95-D-0021
DSSW	DASW01-95-D-0025

**TOTAL CONTRACTS**

**46 Contracts**